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March 21 2001

Mary L. Cottrell

Secretary

Department of Telecommunications and Energy

One South Station, 2nd Floor

Boston, MA 02110

Re: Colonial Gas Company, D.T.E. 00-73

Dear Secretary Cottrell:

Pursuant to the procedural schedule issued by the Hearing Officer, the Attorney General files this Reply Brief for the purpose of responding to arguments made in the Initial Brief filed by Colonial Gas Company ("Colonial" or "Company") in this proceeding on March 14, 2001. (1) Contrary to the assertions of the Company, the Attorney General has correctly argued that the Company has failed to demonstrate an entitlement to the claimed lost base revenues ("LBR") resulting from the Company's demand-side management programs ("DSM"). As a consequence, the Department of Telecommunications and Energy ("Department") should deny the requested LBR recovery, and instead reduce rates to reflect as an exogenous change the reduction to bad debt costs that resulted from the Department-ordered unbundling of rates.

In his Initial Brief, the Attorney General argued, among other things, that the Department should not allow recovery of the LBRs in this proceeding. The Department incorporated all LBRs within the cost-off revenue requirement it calculated to determine the savings from the rate-freeze approach in D.T.E. 98-128, as well as the future recoverability of merger costs. AG Br. at p. 7. Recovery is inappropriate for both the \$717,135 the Company seeks as an exogenous cost, as well as the \$550,587 in LBRs associated with the Company's post-April 1996 DSM programs. AG Br. at pp. 7-9. Separately, the Attorney General argued that the reduction in bad debt expense as a result of the unbundling of rates was an exogenous cost that should be used to reduce rates under the Rate plan. AG Br. at pp. 8-9.

In its Initial Brief, Colonial argues that the Department should approve its request because the "Company's filing meets the Department's standard for recovery." Co. Br. at p. 12. The Company claims that \$717,135 in LBRs satisfy the "Department's two-pronged standard for the recovery of exogenous costs . . . [first] whether the cost change falls into one of the categories identified by the Department as eligible for recovery," and second "whether the magnitude of the cost change is large enough to affect the company's operations significantly." Id. As to the \$550,587 in LBRs related to ongoing DSM programs, the Company states that the calculation of this figure is not in dispute, and it consequently should be allowed. Id. Colonial dismisses the position of the Attorney General that the Department

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should not allow recovery of the LBRs. Co. Br. pp. 13-19. The Company also disputes the Attorney General's position that rates should be reduced to reflect as an exogenous change the reduction to bad debt costs that resulted from the unbundling of rates. Co. Br. pp. 21-22.

The Attorney General submits that the Department's determination of the treatment of exogenous costs must be consistent with the treatment afforded such costs in the cast-off revenue requirement adopted in D.T.E. 98-128. The Department's approval of the Company's Rate Plan in D.T.E. 98-128 was predicated on a so-called cast-off revenue requirement used to measure (1) the savings from a ten-year rate freeze, and (2) the recoverability of Colonial's merger costs, based on what the revenue requirement would be at the end of year ten of the rate freeze had Colonial operated during that time on a standalone basis. Id. (2)

The cast-off revenue requirement that the Company used and the Department approved as the basis for the rate freeze, and the subsequent merger savings computation, cannot now be modified by the Company or the Department without the Department reopening the merger docket to reconsider the rate plan and the expected savings. The costs at issue in this case, LBRs for DSM programs and bad debt (or uncollectible) expenses, were considered and given specific treatment by the Department in determining the cast-off revenue requirement and resulting merger savings. (3) The Department's determination of what is, and what is not exogenous to the Rate Plan must depend on their treatment in the cast-off revenue requirement.

The LBRs through 2000 were incorporated into revenue requirement calculations. They cannot now be treated as exogenous to those revenues. Otherwise, the Company will double collect those costs.

The pro forma bad debt expense used to determine the cast-off revenue requirement also incorporated the full amount of the bad debt including base revenue as well as Cost of Gas Adjustment Clause revenues. D.T.E. 98-128, pp. 39-40 ("Therefore, the uncollectible expense shall be calculated by multiplying the ratios noted above for each division, by the total allowed revenues for each division" (emphasis added)). The reduction in bad debt expense that the Company received as a result of the Department ordered unbundling of rates was not incorporated by the Company or the Department in the cast-off revenue requirement used to determine the appropriateness of the Rate Plan and the expected savings. Therefore, the bad debt expense reduction that the Company achieved as a result of the unbundling of rates is exogenous to that revenue requirement and customers should receive the benefit of that reduction.

For all of the reasons stated here and in the Attorney General's Initial Brief, the Department should deny Colonial's request for LBR recovery as either an exogenous cost or as a DSM expense. Rates should be reduced to reflect as an exogenous change the reduction to bad debt costs that resulted from the unbundling of rates.

Sincerely,

Alexander J. Cochis

Joseph W. Rogers

Assistant Attorneys General

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cc: Service List

1. This letter is not intended to respond to every argument made or position taken. Rather, it is intended to respond only to the extent necessary to assist the Department's deliberations, i.e., to provide further information, to correct misstatements or misinterpretations, or to provide omitted context. Therefore, silence by the Attorney General in regard to any particular argument, assertions of fact, or statement of position in the various Initial Briefs should not be interpreted, construed, or treated as assent, acquiescence or agreement with such argument, assertion or position.
2. A revenue requirement is defined as the cost of service for a utility company and a cast-off represents the Company's cost of service as of the beginning of the year one of the rate freeze. D.T.E. 98-128, p. 10.
3. In the merger order, the Department stated that it "evaluated the reasonableness of each component of the cast-off revenue requirement for the purpose of determining the starting point for the model of Colonial's revenue requirement." D.T.E. 98-128, pp. 20-21 (emphasis added).